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UNCLAS SECTION 01 OF 02 DAR ES SALAAM 000315

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TAGS: [BEXP](#) [ECON](#) [ETRD](#) [TZ](#)
SUBJECT: Hike on Used Clothing Duties in Tanzania

REF: A) USDOC 00408 B) 04 DAR ES SALAAM

C) OWEN-FLAATEN E-MAIL

Sensitive but Unclassified (SBU); Please protect accordingly.

[1](#)1. (SBU) Summary: US exporters and local importers were caught by surprise when duties on used clothing imports increased on January 1, 2005 as a result of the East African Customs Union (EACU). Duties increased from 25 percent to USD 0.75 per kilo or 50 percent, whichever is greater. Local dealers, including members of the American Business Association in Tanzania, have raised the issue with the Tanzanian government and with the US Embassy. Nearly 250 containers of used clothing remain at the Dar es Salaam port as the dealers appeal to the government for amnesty. Charge d'Affaires and Econoff have met with the Tanzanian Finance Minister and the Commissioner of the Revenue Authority to discuss the issue, which has been covered extensively by the local press. According to local businesses, the new duties will put an end to the used clothing business in Tanzania. End Summary.

New Rate Implemented without Notice

[1](#)2. (SBU) The Tanzania Revenue Authority (TRA) began to charge new duties on used clothing beginning January 1, [1](#)2005. The previous rate of 25 percent was changed to USD 0.75 per kilo or 50 percent, whichever is greater. The Commissioner General of the TRA told econoff that the new rate was required by the East African Customs Union (EACU), which lists used clothing as a sensitive product. He said that Kenya had insisted on the higher rate. In Tanzania, the new rate is effectively over five times higher than the previous rate of 25 percent. Used clothing is valued (for customs purposes) by weight, at USD 0.55 per kilo. A tariff of USD 0.75 per kilo will always be greater than a tariff of 50 percent, and represents an effective duty of 136 percent.

[1](#)3. (SBU) The details of the new EACU duty rates were only finalized in late December (see reftel B), days before the January 1 implementation date. In the rush to reach a last-minute agreement, the GOT neither consulted nor informed local importers of the new duty rates until TRA suddenly began to charge the higher rate in January. Currently, nearly 250 forty-foot containers of used clothing remain at the Dar es Salaam port as local importers refuse to pay the exorbitant new tariff.

Local Dealers Fight Back

[1](#)4. (SBU) In mid-January, the Mitumba Dealers Association (mitumba is the Swahili word for used clothing) began an organized campaign against the new duty rate. One member of the association (an American citizen and member of the American Business Association in Tanzania) contacted econoff for assistance. The Mitumba Dealers Association also contacted the press, placed articles in local newspapers, and arranged television interviews. The local dealers complained that there was no notice of the change, that the duty is arbitrary and does not protect any local interest, and that the industry will not survive if the new duty continues. The American Business Association Chairman also wrote a letter to the Finance Minister and Trade Minister, urging a review of the new policy.

Embassy Advocacy

[1](#)5. (SBU) Post met with GOT officials to clarify the situation regarding the new duty rate. Charge d'Affaires met with Finance Minister Basil Mramba in mid-January and brought up the used clothing issue. Minister Mramba was well aware of the situation and mentioned that local

business people had already been complaining loudly. He said that the duty hike was required by the East African Customs Union agreement and made it clear that the GOT was not happy with the increase either. He noted that since Tanzania does not have a strong garment industry, the only beneficiaries of this increase would presumably be Ugandan and Kenyan garment makers. He added that Kenya and Uganda have been pressing for this increase for several years, but it was only done now because of the EACU. Minister Mramba also mentioned that the GOT had announced that the change should go into effect by March 1, but that the TRA had gone ahead with immediate implementation. The Minister noted that there is a provision within the EACU for countries to appeal tariff changes that are damaging to their economy; he held out the prospect that the GOT might appeal this increase at some point, but probably not immediately.

16. (SBU) Econoff met with TRA Commissioner General Harry Kitilya in late January to discuss the issue further. The Commissioner General explained that the TRA had been under much criticism over the issue, but that TRA was not to blame. He said that TRA had warned the government that the rapid implementation of the EACU duties would cause problems, but that TRA's obligation is to enforce the law (in this case the January 1 implementation date of the EACU). He noted that the Finance Minister had visited with him on the subject, asking if waiving the duties until March would be possible. According to Kitilya, he told the Minister that he could only waive duties upon agreement of the EAC Council of Ministers (i.e., all three Finance Ministers). Kitilya lamented again that the TRA is being harshly criticized for doing its job efficiently.

17. (SBU) Note: In fact, the TRA had already gone on the offensive by issuing official statements in the Swahili press on the issue. These statements claimed that the increased rate was only 50 percent, and that the used clothing dealers were misleading the public about the extent of the duty hike. The statements concluded that good citizens should stop complaining and pay taxes for the development of the country. End note.

Used Clothing Industry in Peril

18. (SBU) The U.S. exports about USD 10 million worth of used clothing to Tanzania, about one-third of Tanzania's total used clothing imports. Canada and Germany are the next largest used clothing exporters to Tanzania. Used clothing is the primary source of clothing for most Tanzanians. The local textile industry is small, export-oriented, and could not begin to fulfill the needs of the Tanzanian market. GOT officials have said that the agreement was not intended to protect local industry, but was only to appease Kenya. Local importers have said that the used clothing trade will completely stop in Tanzania if the new duty rates continue, arguing that local consumers will not be able to afford the higher prices. They argue that only the Kenyan garment industry will benefit, while Tanzanian traders and consumers suffer.

19. (SBU) Comment: It appears that in the rush to sign the EACU, Tanzania allowed Kenya to use the EACU to increase the protection of its garment industry. Working level trade officials seemed as surprised as the importers at the sudden change and its impact on the local used clothing industry. As public opinion against the EACU grows, the GOT faces a dilemma: applying for numerous exceptions to the common external tariffs weakens the whole idea of the Customs Union, while agreeing to harmonized tariffs that hurt Tanzanian business weakens the public's support of the Union. GOT officials are only now realizing that it will be very difficult to undo the damage of its rushed approach in the EACU negotiations. End comment.

OWEN